

**State of California**

**Department of Water Resources**

**Proposed**

**Supplemental Determination of Revenue Requirements**

**For the Period**

**January 1, 2004 Through December 31, 2004**

**To Be Submitted To**

**The California Public Utilities Commission**

**Pursuant To**

**Sections 80110 and 80134 of the California Water Code**



**March 10, 2004**

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## **A. The Proposed Supplemental Determination**

In this Proposed Supplemental Determination of Revenue Requirements for the period January 1, 2004 through and including December 31, 2004, (this “Proposed Supplemental Determination”), the California Department of Water Resources (“the Department” or “DWR”) is considering a decrease in its 2004 revenue requirements as described herein. The Department has identified that, assuming current customer rates remain in place throughout 2004, it will have \$194 million more in power charge revenues than are needed to meet its required reserve and operational requirements. The Department is considering the proposed decrease pursuant to regulations promulgated under the California Administrative Procedure Act. If a supplemental determination is made, the determination will be submitted to the California Public Utilities Commission (“CPUC” or “Commission”) for the purpose of establishing charges upon electric retail customers in the service territories of the investor owned utilities (“IOUs or utilities”) pursuant to the Rate Agreement between the Commission and the Department (the “Rate Agreement”). Capitalized terms used and not otherwise defined herein have the meanings given to such terms in the Rate Agreement, the Indenture under which the Department’s Power Supply Revenue Bonds were issued (the “Bond Indenture”) or the September 18, 2003 Determination described below.

### **GENERAL**

On September 18, 2003, the Department published its Determination of Revenue Requirements for the period of January 1, 2004 through and including December 31, 2004 (the “September 18, 2003 Determination”) and submitted it to the Commission. On January 8, 2004, the Commission adopted Decision 04-01-028 “Order Implementing an Interim Allocation of the 2004 Revenue Requirement Determination of the California Department of Water Resources and Truing Up The 2001-2002 Revenue Requirement Determination of the California Department of Water Resources.” Decision 04-01-028 allocated the Department’s 2004 revenue requirement for its power purchase program among customers of the three IOUs – namely Pacific Gas and Electric Company (“PG&E”), Southern California Edison Company (“SCE”) and San Diego Gas & Electric (“SDG&E”) – on an interim basis.

The Department has reviewed certain matters relating to its 2004 revenue requirement, including, but not limited to, operating results of the Electric Power Fund (the “Fund”) as of December 31, 2003; contract dispatch and cost modeling; developments in natural gas markets; and Commission decisions issued subsequent to the September 18, 2003 Determination. The Department has concluded that a supplemental revenue requirement determination addressing the following issues would be useful to the Commission in adjusting the allocation of Revenue Requirements established by Decision 04-01-028, and would benefit retail rate payers in the IOUs’ service territories:

- Electric Power Fund Account Balances;
- Bundled Customer Load Forecasts;

- El Paso Energy Settlement Agreement;
- Direct Access Load Forecasts;
- Contract Dispatch and Cost Modeling;
- Natural Gas Price Forecasts and Related Assumptions;
- IOU Planned Outage Schedules; and
- Hydroelectric Conditions in California and the Pacific Northwest.

## **RELATIONSHIP TO OTHER DETERMINATIONS OF THE DEPARTMENT'S REVENUE REQUIREMENTS**

This Proposed Supplemental Determination addresses only those changes under the subjects noted above. All other previous assumptions underlying the September 18, 2003 Determination remain unchanged for the purposes of this Proposed Supplemental Determination. In addition, the Department intends to determine and submit to the Commission its revenue requirements for 2005 later this year.

## **HIGHLIGHTS OF THE PROPOSED SUPPLEMENTAL DETERMINATION OF REVENUE REQUIREMENTS**

The Department hereby determines, on the basis of the materials presented and referred to by this Proposed Supplemental Determination, its proposed cash-basis Retail Revenue Requirement<sup>1</sup> for the period of January 1, 2004 through December 31, 2004, to be \$5.214 billion, consisting of \$4.322 billion from power charge revenues and \$892 million in bond charge revenues. Bond Related Costs have not significantly changed in comparison to the September 18, 2003 Determination and, as a result, will not be discussed in this Proposed Supplemental Determination.

A primary consideration motivating this Proposed Supplemental Determination is the higher-than-projected aggregate ending account balance in the Department's Power Charge Accounts as of December 31, 2003. The higher-than-projected aggregate account balance resulted from the net effects of increased Departmental revenue receipts and increased operational costs during the last half of calendar year 2003. The September 18, 2003 Determination included actual information through June 2003 and projected July through December 2003.

Factors contributing to the collection of higher-than-projected revenues during the 2003 Revenue Requirement Period include the following: (1) Power Charge revenues, including revenues from a cost responsibility surcharge ("CRS") collected from Direct Access Customers, exceeded projections by approximately \$244 million due primarily to higher-than-projected energy sales by the Department to bundled customers, higher-than-expected

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<sup>1</sup> Although the Department will use herein the term "Retail Revenue Requirement" which, as defined by the Rate Agreement, means the amounts to be generated from Power Charges on Retail End Use Customers (i.e., bundled customers of the IOUs), such revenue requirement may also be satisfied by Direct Access Power Charge Revenues (as that term is defined in the Bond Indenture).

Power Charge remittances by PG&E (approximately \$56 million through December 31, 2003) and a delay in shifting prioritization of the CRS Competitive Transition Charge component relative to the CRS Power Charge component; (2) the Department received FERC-ordered settlement monies totaling approximately \$15.5 million in 2003 (as well as \$6.1 million in January 2004); (3) the Department received approximately \$89 million more than projected from off-system sales transactions due to increased sales volumes and higher wholesale prices; and (4) the Department received \$3 million more than projected in interest earnings on fund balances. In combination, these factors resulted in the Department collecting \$352 million more than the amount of revenues that had been forecast for the 2003 Revenue Requirement Period. These revenue increases are discussed in greater detail in Section E of this Proposed Supplemental Determination.

Offsetting these revenue increases, the Department incurred \$78 million more than the amount of operating expenses that had been forecast for the 2003 Revenue Requirement Period. The Department incurred \$74 million more than projected in power costs due to (a) the Department's procured energy volume exceeding projections by more than 954 GWh, and (b) higher-than-expected gas prices. The remaining \$4 million in higher-than-projected costs resulted from actual administrative and general expenses exceeding forecasts. These cost increases are also discussed in Section E of this Proposed Supplemental Determination.

The net effect of these factors was an aggregate beginning balance, as of January 1, 2004, in the Power Charge Accounts that exceeded the projected amount by \$275 million.

In addition to these historical factors affecting this Proposed Supplemental Determination, the Department has identified necessary revisions to forecasting assumptions in the following areas: bundled customer load, IOU planned outage schedules, fuel prices, contract dispatch and cost modeling, and annual hydroelectric generation and dispatch. The combined impact of these revised assumptions is a net increase to the Department's forecasted 2004 annual power costs of \$180 million when compared to the power cost forecasts included in the September 18, 2003 Determination. Relevant changes to the Department's assumptions underlying this Proposed Supplemental Determination are discussed in Section E.

Table A-1 shows a summary of the Department's revenue requirements and the account balances associated with its projected Department Costs ("Power Charge Accounts") for the 2004 Revenue Requirement Period. These figures are compared to those reflected in the September 18, 2003 Determination. Assumptions underlying these revenue requirements and account balances are discussed in Section E.

**TABLE A-1**  
**SUMMARY OF THE DEPARTMENT'S 2004 RETAIL REVENUE**  
**REQUIREMENT AND POWER CHARGE ACCOUNT BALANCES <sup>1</sup>**  
**(\$ MILLIONS)**

| Line | Description                                              | 2004<br>Supplemental <sup>2</sup> | 2004 <sup>3</sup> | Difference  |
|------|----------------------------------------------------------|-----------------------------------|-------------------|-------------|
| 1    | <i>Beginning Balance in Power Charge Accounts</i>        |                                   |                   |             |
| 2    | Operating Account                                        | 1,031                             | 756               | 275         |
| 3    | Priority Contract Amount                                 | -                                 | -                 | -           |
| 4    | Operating Reserve Account                                | 630                               | 630               | -           |
| 5    | <b>Total Beginning Balance in Power Charge Accounts</b>  | <b>1,660</b>                      | <b>1,386</b>      | <b>275</b>  |
| 6    | <i>Power Charge Accounts Operating Revenues</i>          |                                   |                   |             |
| 7    | Power Charge Revenues                                    | 4,322                             | 4,517             | (194)       |
| 8    | Extraordinary Receipts from Utilities                    | 67                                | -                 | 67          |
| 9    | Contract Settlements                                     | 6                                 | -                 | 6           |
| 10   | Other Power Sales                                        | 230                               | 135               | 94          |
| 11   | Interest Earnings on Fund Balances                       | 36                                | 31                | 5           |
| 12   | <b>Total Power Charge Accounts Operating Revenues</b>    | <b>4,661</b>                      | <b>4,683</b>      | <b>(23)</b> |
| 13   | <i>Power Charge Accounts Operating Expenses</i>          |                                   |                   |             |
| 14   | Administrative and General Expenses                      | 59                                | 59                | -           |
| 15   | Total Power Costs                                        | 4,878                             | 4,698             | 180         |
| 16   | Extraordinary Costs                                      | 71                                | 71                | -           |
| 17   | <b>Total Power Charge Accounts Operating Expenses</b>    | <b>5,008</b>                      | <b>4,828</b>      | <b>180</b>  |
| 18   | Net Operating Revenues                                   | (347)                             | (145)             | (202)       |
| 19   | Net Transfers from/(to) Bond Charge Accounts             | -                                 | -                 | -           |
| 20   | Total Net Revenues                                       | (347)                             | (145)             | (202)       |
| 21   | <b>Ending Aggregate Balance in Power Charge Accounts</b> | <b>1,313</b>                      | <b>1,240</b>      | <b>72</b>   |

| 2004 Target Minimum Power Charge Account Balances                                                                                                                                                                       | Target<br>(Millions of Dollars) Difference |     |    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----|----|
| <b>Operating Account:</b> This minimum balance is targeted to cover intra-month volatility as measured by the maximum difference in revenues and expenses in a calendar month under a stress scenario.                  | 303                                        | 285 | 18 |
| <b>Operating Reserve Account:</b> Used to cover deficiencies in the Operating Account. It is sized as the maximum seven-month difference between operating revenues and expenses as calculated under a stress scenario. | 601                                        | 579 | 22 |
| <b>Total Operating Reserves:</b>                                                                                                                                                                                        | 904                                        | 864 | 40 |

<sup>1</sup> Numbers may not add due to rounding.

<sup>2</sup> As proposed herein.

<sup>3</sup> As reflected in the Department's 2004 Determination.

## **B. Background**

The September 18, 2003 Determination provided background information related to Section 80110 of the Water Code and a history of the Department's revenue requirement determinations. The background information included a review of the adoption of the Rate Agreement between the Commission and the Department and discussed the purpose of, and actions required under, the Rate Agreement.

For purposes of this Proposed Supplemental Determination, the background information contained in the September 18, 2003 Determination is incorporated by reference and will not be repeated herein. The September 18, 2003 Determination and the administrative record of materials on which it was based are part of the administrative record of materials underlying this Proposed Supplemental Determination.

On July 18, 2003, the Department published its Proposed Determination of Revenue Requirements for the period January 1, 2004 through December 31, 2004 ("Proposed Determination"). In accordance with the Department's regulations, opportunity was provided for public comment on the Proposed Determination. Comments were received by the Department from SCE, SDG&E, and PG&E on August 14, 2003. These comments were reviewed, and where appropriate, incorporated into the Department's Final Determination issued on September 18, 2003<sup>2</sup>. On September 18, 2003 the Department submitted the Determination to the Commission.

Subsequent to the issuance of the September 18, 2003 Determination, there have been significant developments that impact the Department's revenue requirements for 2004. The Department made a preliminary analysis of potential changes to its Retail Revenue Requirement and now believes it is appropriate to update the September 18, 2003 Determination with a Proposed Supplemental Determination addressing and incorporating significant changes that arose subsequent to the September 18, 2003 Determination.

Factors relative to this Proposed Supplemental Determination are identified and discussed in Section E of this Proposed Supplemental Determination.

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<sup>2</sup> For further information pertaining to the process followed, refer to the September 18, 2003 Determination, Section F entitled "Just and Reasonable Determination".



## **C. Reconciliation**

This section provides a reconciliation of the significant changes with respect to the Retail Revenue Requirement in addition to projected Department Costs, Power Charge Revenues and Direct Access Power Charge Revenues.

### **POWER CHARGE ACCOUNTS OPERATING EXPENSES**

Total Department Costs (specified below) are projected to increase by \$180 million.

#### *ADMINISTRATIVE AND GENERAL COSTS*

During the 2004 Revenue Requirement Period, Departmental administrative and general costs are not expected to differ from forecasts submitted in the September 18, 2003 Determination. The original estimate of \$59 million remains unchanged, assuming \$55 million for the Department's appropriated budget plus \$4 million for consulting services for development and monitoring of the revenue requirements and financial advisory and related consulting services for managing the \$11 billion debt portfolio and related swaps and reserves. Details related to the Department's appropriation within the 2003-2004 State Budget are discussed within the September 18, 2003 Determination and will not be repeated herein.

#### *TOTAL POWER COSTS*

The September 18, 2003 Determination projected contract purchases of 58,872 GWh, which has been revised to 62,849 GWh, an increase of 3,977 GWh. The key factors contributing to the increase in projected power sales are described in Section E.

Due, in part, to the increase in power sales, the total cost of purchased power is expected to increase by \$180 million. This increase is attributed primarily to the factors discussed in Section E, including significantly increased fuel expenses and certain changes to modeled power contract assumptions.

#### *EXTRAORDINARY COSTS*

During the 2004 Revenue Requirement Period, Departmental extraordinary costs (gas contract collateral deposits) are not expected to differ from forecasts included in the September 18, 2003 Determination. The original estimate of \$71 million remains unchanged and is based on using gas futures contracts to hedge June through December 2004 gas requirements. The final amount will be based on using gas hedges proposed by the investor-owned utilities who are managing the Department's contracts. These hedging arrangements were proposed to reduce exposure to a potentially volatile gas fuel supply market with potentially higher gas costs without these gas futures contracts.

### **POWER CHARGE ACCOUNTS OPERATING REVENUES**

Total revenue for deposit in Power Charge Accounts (specified below) is projected to decrease by a net \$23 million.

#### *POWER CHARGE REVENUES FROM BUNDLED CUSTOMERS AND DIRECT ACCESS CUSTOMERS*

Power Charge Revenues needed to be derived from bundled customers and direct access customers are projected to be \$194 million less than previously projected. The reduction in needed revenues primarily results from higher-than-projected aggregate ending Power Charge Account balances as of December 31, 2003. The \$275 million difference between actual and forecasted balances, in concert with the consideration of other forecasted variables, has allowed the Department to reduce its needed power charge revenues by the aforementioned amount.

#### *EXTRAORDINARY RECEIPTS FROM UTILITIES*

During the 2004 Revenue Requirement Period, the Department projects receipt of approximately \$67 million in extraordinary revenues from PG&E. This total results from the net effect of reimbursements due to PG&E as a result of higher-than-projected Power Charge remittances received by the Department through December 31, 2003 and payments due to the Department, which result from accrued interest on PG&E's historical "WAPA" under-remittances as well as amounts related to the PG&E bankruptcy collection.

Through December 31, 2003, the Department received nearly \$56 million in excessive Power Charge remittances from PG&E. This amount is forecasted to be distributed to PG&E in March 2004. Offsetting this reimbursement is \$122 million, \$38 million in interest related to historical "WAPA" under-remittances (received in February 2004) and \$84 million in "pre-petition" amounts owed to the Department by PG&E (projected for purposes of this determination to be received in or before October 2004), in extraordinary revenues. As previously noted, the cumulative effect of these transactions is a net inflow to the Department of \$67 million during the 2004 Revenue Requirement Period.

#### *CONTRACT SETTLEMENTS*

This determination takes into account the receipt of \$6.1 million (received in January 2004) resulting from a FERC-ordered settlement with Portland General Electric Company in September 2003. With respect to this settlement, FERC's approval was granted in its Order Approving Offer of Settlement and Granting Motion to Transfer, related to docket numbers EL02-114-000 and EL02-115-001, as issued on September 26, 2003. This Order references Exhibit A of the Offer of Settlement As to Portland General Electric Company, agreed to on September 26, 2003, in which the sum of \$6.1 million was allocated for payment to the Department's Electric Power Fund.

#### *OTHER POWER SALES*

Revenue from Other Power Sales is projected to be \$94 million more than previously projected, as described in Section E.

#### *INTEREST EARNINGS ON FUND BALANCES*

Revenue from Interest Earnings is projected to be \$5 million more than previously projected, as a result of increased account balances, as described below.

#### *POWER CHARGE ACCOUNT BALANCES*

The Minimum Operating Expense Available Balance (“MOEAB”) is determined to be an amount \$18 million greater than previously determined. The Bond Indenture requires this amount to be “the maximum amount projected by the Department by which Operating Expenses exceed Power Charge Revenues during any one calendar month during that Revenue Requirement Period . . . based on such assumptions as the Department deems to be appropriate after consultation with the Commission and . . . [taking] into account a range of possible future outcomes.”

The Operating Reserve Account Requirement (“ORAR”) is determined to be an amount \$22 million greater than previously determined. This account is available to cover deficiencies in the Operating Account and is now required to be “the greater of (i) the largest aggregate amount projected by the Department by which Operating Expenses exceed Power Charge Revenues during any consecutive seven (7) calendar months commencing in [the] Revenue Requirement Period, and (ii) 12 percent of the Department’s projected annual Operating Expenses for [the] Revenue Requirement Period [but] not less than [12 percent] of the Department’s Operating Expenses for the most recent twelve (12) calendar month period.” For the 2004 Revenue Requirement Period, 12 percent of Operating Expenses for the period of January through December 2003 is the greater amount and is used to calculate the \$601 million requirement.

#### *POWER CHARGE REVENUES FROM BUNDLED CUSTOMERS AND DIRECT ACCESS CUSTOMERS*

Power Charge Revenues needed to be derived from bundled customers and direct access customers are projected to be \$194 million less than previously projected. The reduction in needed revenues primarily results from higher-than-projected aggregate ending Power Charge Account balances as of December 31, 2003. The \$275 million difference between actual and forecasted balances, in concert with the consideration of other forecasted variables noted above, has allowed the Department to reduce its needed power charge revenues by the aforementioned amount.

## **D. The Department's Proposed Supplemental Determination of Revenue Requirements for the Period of January 1, 2004 Through December 31, 2004**

### **SUPPLEMENTAL REVENUE REQUIREMENT DETERMINATION**

For the 2004 Revenue Requirement Period, which commenced January 1, 2004 and ends December 31, 2004, the Department's revenue requirements consist of Department Costs and Power Charge revenues, and Bond Related Costs and Bond Charge Revenues. With respect to this Proposed Supplemental Determination, there are no material changes related to the Department's Bond Related Costs or Bond Charge Revenues. Only Department Costs and Power Charge revenues will be discussed herein.

Department Costs include:

- (1) Costs associated with power supply to be delivered under the Department's existing Priority Long-Term Power Contracts ("PLTPCs");
- (2) Operating reserves as determined by the Department (see Table A-1);
- (3) Extraordinary costs (gas contract collateral deposits); and
- (4) Administrative and general expenses.

Revenues available to pay Department Costs include:

- (1) Revenues from other power sales;
- (2) Interest earnings; and
- (3) Power Charge revenues (including both Power Charge Revenues and Direct Access Power Charge Revenues, as those terms are defined in the Bond Indenture).

This Proposed Supplemental Determination is made on the premise that the Department will not procure the residual net short at any time during 2004.

During 2004, the Department projects that it will incur the following costs: (a) \$4.878 billion in costs for long-term power contract purchases to cover the portion of the net short requirement of the Customers associated with long-term energy supply contracts entered into by the Department prior to January 1, 2003 on behalf of its Retail End Use Customers; (b) \$59 million in administrative and general expenses; (c) \$71 million in extraordinary costs; and (d) no net transfers to Bond Charge accounts. This results in a total of \$5.008 billion in Department Costs.

Funds to meet these costs are projected to be provided from (a) \$230 million from the Department's share of power sales not made to Retail End Use Customers; (b) \$36 million of interest earned on Power Charge Account balances; (c) \$67 million of extraordinary

receipts from PG&E; (d) \$6 million of receipts due to [FERC-related settlements]; and (e) \$4.322 billion of Power Charge Revenues and Revenues generated from a Direct Access CRS. These revenues total \$4.661 billion. The remaining requirement of \$347 million is met through a \$347 million reduction in Power Charge Account balances that, in part, results from an aggregate ending balance (as of December 31, 2003) in the Power Charge Accounts that was \$275 million higher than projected. The causes of this difference between actual and projected ending aggregate balances in the Power Charge Accounts are described in detail in Section E.

Table D-1 provides a quarterly review of costs and revenues associated with the Power Purchase Program.

**TABLE D-1**  
**POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE:**  
**RETAIL CUSTOMER POWER CHARGE CASH REQUIREMENT**  
**(\$ MILLIONS)**

| Line | Description                                        | Amounts for Revenue Requirement Period<br>(Millions of Dollars) |              |              |              |              |
|------|----------------------------------------------------|-----------------------------------------------------------------|--------------|--------------|--------------|--------------|
|      |                                                    | 2004 -<br>Q1                                                    | 2004 -<br>Q2 | 2004 -<br>Q3 | 2004 -<br>Q4 | Total        |
| 1    | <i>Power Charge Accounts Expenses</i>              |                                                                 |              |              |              |              |
| 2    | Power Costs                                        | 1,144                                                           | 1,061        | 1,406        | 1,268        | 4,878        |
| 3    | Ancillary Services                                 | -                                                               | -            | -            | -            | -            |
| 4    | Administrative and General Expenses                | 15                                                              | 15           | 15           | 15           | 59           |
| 5    | Extraordinary Payments                             | -                                                               | 71           | -            | -            | 71           |
| 6    | Debt Service                                       | -                                                               | -            | -            | -            | -            |
| 7    | Net Transfers from/(to) Bond Charge Accounts       | -                                                               | -            | -            | -            | -            |
| 8    | Net Changes to Power Charge Account Balances       | (26)                                                            | (140)        | (233)        | 52           | (347)        |
| 9    | <b>Total Power Charge Accounts Expenses</b>        | <b>1,133</b>                                                    | <b>1,006</b> | <b>1,187</b> | <b>1,334</b> | <b>4,661</b> |
| 10   | <i>Power Charge Accounts Revenues</i>              |                                                                 |              |              |              |              |
| 11   | Surcharge Revenues                                 | -                                                               | -            | -            | -            | -            |
| 12   | Other Power Sales Revenues                         | 66                                                              | 39           | 52           | 73           | 230          |
| 13   | Interest Earnings on Power Charge Account Balances | 12                                                              | -            | 24           | -            | 36           |
| 14   | Net Loan Proceeds                                  | -                                                               | -            | -            | -            | -            |
| 15   | Retail Customer Power Charge Revenue Requirement   | 1,055                                                           | 967          | 1,112        | 1,262        | 4,395        |
| 16   | <b>Total Power Charge Accounts Revenues</b>        | <b>1,133</b>                                                    | <b>1,006</b> | <b>1,187</b> | <b>1,334</b> | <b>4,661</b> |

## **E. Assumptions Governing the Department's Supplemental Revenue Requirements for the 2004 Revenue Requirement Time Period**

Revenue Requirements for the period January 1, 2004, through and including December 31, 2004, are based on assumptions regarding sales, power supply, natural gas prices, off-system sales, demand side management and conservation, and administrative and general expenses. The Department re-examined the assumptions affecting its costs and revenues and determined that many assumptions are unchanged from the September 18, 2003 Determination. Other assumptions have changed based upon information made available subsequent to September 18, 2003, and the revised assumptions are identified and explained in detail below.

This Proposed Supplemental Determination addresses changes in the following specific areas:

- Electric Power Fund Account Balances;
- Bundled Customer Load Forecasts;
- El Paso Energy Settlement Agreement;
- Direct Access Load Forecasts;
- Contract Dispatch and Cost Modeling;
- Natural Gas Price Forecasts and Related Assumptions;
- IOU Planned Outage Schedules; and
- Hydroelectric Conditions in California and the Pacific Northwest.

### **ELECTRIC POWER FUND ACCOUNT BALANCES**

A primary consideration motivating this Proposed Supplemental Determination is the higher-than-projected aggregate ending account balance in the Department's Power Charge Accounts as of December 31, 2003. The higher-than-projected aggregate account balance resulted from the net affects of increased Departmental revenue receipts and increased operational costs during the last half of calendar year 2003

Factors contributing to the collection of higher-than-projected revenues during the 2003 Revenue Requirement Period include the following: (1) Power Charge revenues, including revenues from Direct Access Customers, exceeded projections by approximately \$244 million due primarily to higher-than-projected energy sales by the Department to bundled customers, higher-than-expected Power Charge remittances by PG&E (approximately \$56 million through December 31, 2003) and a delay in shifting prioritization of the Competitive Transition Charge component of the Direct Access CRS relative to the Power Charge component of the Direct Access CRS; (2) the Department received FERC settlement monies totaling approximately \$15.5 million in 2003 (as well as \$6.1 million in January 2004); (3) the Department received approximately \$89 million more than projected

from off-system sales transactions due to increased sales volumes and higher wholesale prices; and (4) the Department received \$3 million more than projected in interest earnings on fund balances. In combination, these factors resulted in the Department collecting \$352 million more than the amount of revenues that had been forecast for the 2003 Revenue Requirement Period.

Higher-than-projected dispatches of power under the Priority Long Term Power Contracts also have a direct impact on the amount of Power Charge revenues received by the Department. During the 2003 Revenue Requirement Period, actual IOU dispatches of Departmental power contracts exceeded related forecasts by nearly 954 GWh. In aggregate, PG&E's and SCE's scheduled dispatches of Department power contracts surpassed forecasted totals by more than 1,672 GWh. This excess was offset by SDG&E dispatching almost 722 GWh less than forecast. A primary causal example underpinning PG&E's higher-than-expected dispatch of Department power contracts was a prolonged refueling outage at Unit 2 of its Diablo Canyon generating facility. The lengthy reduction in this PG&E-owned generating resource resulted in a net short that exceeded the related forecast by 420 GWh. Other resource-specific examples affecting the positive variance between actual and forecasted Department-procured energy volumes are discussed below.

With respect to the Department's receipt of funds related to FERC-approved settlements, the FERC issued on July 23, 2003 an Order Approving Contested Settlement, related to docket numbers EL02-113-000 and EL02-113-002. This Order approved the contested settlement between El Paso Electric Company, the California Attorney General, the California Electricity Oversight Board and the Commission Trial Staff in which \$15.5 million in refunds was directed to be paid by El Paso Electric Company to the Department. Following this Order, the sum of \$15.5 million was received by the Department and deposited, pursuant to the Order, in the Department's Electric Power Fund in October 2003.

A second receipt of \$6.1 million was recorded in the Department's Power Charge Account in January 2004, resulting from a FERC-approved settlement with Portland General Electric Company. This settlement was approved in FERC's Order Approving Offer of Settlement and Granting Motion to Transfer, related to docket numbers EL02-114-000 and EL02-115-001, as issued on September 26, 2003. This Order references Exhibit A of the Offer of Settlement As to Portland General Electric Company, agreed to on September 26, 2003, in which the sum of \$6.1 million was allocated for payment to the Department's Electric Power Fund. Though the settlement receipt from Portland General Electric did not contribute to the Department's higher-than-projected, aggregate ending Power Charge Account balances in 2003, January's (2004) settlement remittance is reflected in this Proposed Supplemental Determination for the 2004 Revenue Requirement Period.

Due to the aforementioned deviation between actual and forecasted IOU dispatches of Priority Long Term Power Contracts, as well as other contributing factors described in this section, the Department incurred more than \$74 million in unexpected power costs during the 2003 Revenue Requirement Period.

The net effect of these observations was an aggregate beginning balance, as of January 1, 2004, in the Power Charge Accounts that exceeded expectations by \$275 million.

In addition, the Department is projecting the receipt of approximately \$67 million in extraordinary revenues from PG&E during the 2004 Revenue Requirement Period. As previously noted, this total results from the net effect of reimbursements due to PG&E as a result of higher-than-projected Power Charge remittances received by the Department through December 31, 2003 and payments due to the Department, which result from accrued interest on PG&E's historical "WAPA" under-remittances as well as "pre-petition" amounts owed to the Department by PG&E.

Through December 31, 2003, the Department received nearly \$56 million in excessive Power Charge remittances from PG&E. The \$56 million overpayment primarily resulted from PG&E remitting the applicable Departmental Power Charge at a rate of approximately \$93.00/MWh, which exceeded rates identified in the CPUC-ordered rate schedule between the months of September and December 2003, as specified in Decision 03-09-018. This reimbursement is forecasted to be distributed to PG&E in March 2004.

Offsetting this reimbursement is \$122 million in extraordinary revenues which the Department expects to receive, or has already received, during the 2004 Revenue Requirement Period. Of this \$122 million, \$38 million in interest, related to historical "WAPA" under-remittances, was received in February 2004. The \$38 million in interest, as addressed in Commission Decision 04-01-049 as affirmed in Decision 04-02-065, is specifically related to PG&E's non-payment of applicable DWR charges associated with the delivery of energy to fulfill PG&E's "WAPA" obligations. The remaining \$84 million, related to "pre-petition" amounts owed to the Department by PG&E, is expected to be received in or before October 2004. The cumulative effect of these transactions is a net inflow to the Department of \$67 million during the 2004 Revenue Requirement Period. This extraordinary revenue has been considered by the Department during the determination of its revenue requirements and applicable operating reserves for the 2004 Revenue Requirement Period.

#### **BUNDLED CUSTOMER LOAD FORECASTS**

The Department obtained the most recent forecasts of customer loads from each IOU in January 2004. The forecasts received from the IOUs were compared with other relevant information including recorded IOU sales data, utility expected growth factors, and forecasts prepared by the California Energy Commission ("CEC"). A loss factor was applied to the IOU estimates of sales at the customer's meter to obtain the total amount of energy required to meet customer electricity requirements. The loss factors utilized in developing the estimate of the electricity requirements are presented in Table E-1. Only SDG&E's loss factor is different from the September 18, 2003 Determination, where distribution losses were 4.0 percent. The increase to the SDG&E loss factor is based on new information received from the utility.



**TABLE E-1**  
**LOSS FACTORS UTILIZED**

| Utility | Distribution | Transmission | Total |
|---------|--------------|--------------|-------|
| PG&E    | 6.4%         | 2.0%         | 8.4%  |
| SCE     | 7.4%         | 1.6%         | 9.0%  |
| SDG&E   | 4.6%         | 1.8%         | 6.4%  |

Each IOU forecast was developed using econometric models. The models rely on a statistical analysis of historical data to develop regression equations that relate changes in “independent” variables (such as employment growth) to “dependent” variables (such as electricity sales by the end-user segment). The resulting equations, together with forecasts of electricity prices, weather conditions, and key economic drivers, are used to predict sales by revenue class. To improve accuracy, the projections may be modified by the IOUs to account for current trends, judgment, or other events not specifically addressed in the models.

Table E-2 presents the major assumptions employed in the IOU forecasts utilized by the Department for the purpose of this 2004 Determination. The economic forecast for PG&E was based on a forecast of economic growth in PG&E’s service area prepared by Economy.com. SCE derived its economic assumptions from a national and statewide forecast prepared by Data Resources Inc. (“DRI”), and SDG&E” relied on a DRI forecast of economic trends in its service area.

**TABLE E-2**  
**MAJOR ASSUMPTIONS USED IN THE LOAD FORECASTS**  
**OF THE INVESTOR-OWNED UTILITIES**

|                                         | <u>PG&amp;E</u> | <u>SCE</u>    | <u>SDG&amp;E</u> |
|-----------------------------------------|-----------------|---------------|------------------|
| <b>Growth Assumptions:</b>              |                 |               |                  |
| <b>Population Growth<sup>1</sup></b>    | <u>1.1</u>      | <u>1.8</u>    | <u>1.4</u>       |
| <b>Number of Households<sup>1</sup></b> | <u>1.4</u>      | <u>1.0</u>    | <u>1.7</u>       |
| <b>Non-Farm Employment<sup>1</sup>,</b> | <u>0.6</u>      | <u>1.1</u>    | <u>2.1</u>       |
| <b>Heating Degree Days</b>              | <u>20-Yr.</u>   | <u>30-Yr.</u> | <u>20-Yr.</u>    |
|                                         | <u>Avg.</u>     | <u>Avg.</u>   | <u>Avg.</u>      |
| <b>Cooling Degree Days</b>              | <u>20-Yr.</u>   | <u>30-Yr.</u> | <u>20-Yr.</u>    |
|                                         | <u>Avg.</u>     | <u>Avg.</u>   | <u>Avg.</u>      |

<sup>1</sup> Percent per year increase during 2002 and 2003, except as noted.

The Department obtained each IOU’s most updated load forecast as of February 2004. For PG&E, the Department relied on PG&E Advice Letter 2464-E, filed January 21, 2004, describing tariff changes required for its modified short-term procurement plan. For SCE, the Department relied on SCE’s October 3, 2003 Energy Resource Recovery Account (“ERRA”) filing. For SDG&E, the Department relied on SDG&E’s Advice Letter 1557-E,

filed January 20, 2004, describing revisions to its short-term procurement plan. PG&E projects 2004 total bundled sales of 78,499 GWh, an increase of 1.9 percent from the Department's September 18, 2003 Determination. SCE projects total bundled sales of 75,960 GWh, a decrease of 1.8 percent from the Department's September 18, 2003 Determination. SDG&E projects total bundled sales of 16,950 GWh, a decrease of .4% from the Department's September 18, 2003 Determination. These projections include transmission and distribution losses (i.e., at the generator).

## **EL PASO ENERGY SETTLEMENT AGREEMENT**

On June 24, 2003, the State of California, Office of the Attorney General, executed a Master Settlement Agreement with El Paso Energy that will result in the reimbursement of \$1.320 billion to California's electricity and natural gas ratepayers in addition to \$125 million in savings off the Department's long-term power contract with El Paso Energy. Reimbursements will be provided in the form of both cash and non-cash consideration. Determinations regarding the manner in which this reimbursement will be allocated are the responsibility of the Commission.

At the time of the September 18, 2003 Determination, regulatory review of this settlement agreement was not yet complete and, as a result, the Department did not reflect potential extraordinary revenues in its forecasts. The Department has again reviewed the status of this settlement to determine the appropriateness of adjusting its revenue requirement.

The Master Settlement Agreement establishes conditions that must be satisfied prior to consummation of the settlement and distribution of funds. Several of the conditions have not yet been met. Recent developments indicate progress is being made; however, at this time, the Department is unable to predict when the proceeds will become available. Therefore, this Proposed Supplemental Revenue Requirement does not incorporate any changes resulting from the El Paso Settlement Agreement.

## **DIRECT ACCESS AND CRS**

In CPUC Decision 02-03-055, the Commission suspended the right of bundled load customers to elect direct access service after September 20, 2001. Electric end-users who elected to acquire electricity supplies from alternative providers on or before September 20, 2001 continue to be eligible for direct access service. In particular, Decision 02-03-055 prohibits the IOUs from accepting any new direct access service requests not already approved by the Commission, including requests from existing qualified direct access end-users that wish to add new direct access locations or accounts to their service<sup>34</sup>, and contemplates the establishment of a surcharge on direct access customers. The direct access surcharge is intended to prevent cost shifting as a result of direct access migration prior to September 20, 2001<sup>5</sup>.

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<sup>3</sup>Under Decision 04-02-042, issued February 19, 2004, the Commission will allow existing direct access load to add new load at a new location or on a new account so long as its net load in a given service territory does not increase.

<sup>4</sup> Direct access customers, however, may renew their direct access service contracts upon contract expiration or transfer such contract to a new service location provided the new and old load served are of comparable size.

<sup>5</sup> See discussion under Direct Access Surcharge Revenues, below.

On February 19, 2004, the Commission issued Decision 04-02-042 which allows current direct access customers to increase load at one or more locations provided that net load by the same customer does not increase within the utility service territory. This provision is intended to maintain the “standstill principle” adopted in Decision 02-03-055, while accounting for “normal changes in business operations<sup>6</sup>.”

The Department’s direct access estimates, which are based on data provided by the utilities in January 2004, are included in Table E-3. Based on the conditions imposed by CPUC Decisions 02-03-055, 02-11-022 and 03-05-034, the Department believes that direct access will continue at or near such levels in 2004. The Department regularly reviews each utility’s monthly report to the Commission on current direct access load and service request changes, for any changes that would require action by the Department.

The direct access load percentages presented in Table E-3 differ slightly from the percentages presented in the September 18, 2003 Determination. Formerly, the Department estimated direct access as a percent of sales as 10.1 percent in PG&E’s service territory, 14.0 percent in SCE’s service territory and 16.6 percent for SDG&E’s service territory.

**TABLE E-3  
DIRECT ACCESS PERCENT OF LOAD**

|                         | Percentage of Total Load |
|-------------------------|--------------------------|
| <b>PG&amp;E</b>         | 10.8%                    |
| <b>SCE</b>              | 14.0%                    |
| <b>SDG&amp;E</b>        | 16.9%                    |
| <b><i>Statewide</i></b> | <b><i>12.9%</i></b>      |

In a series of decisions the Commission has ordered certain classes of direct access and other departing load customers to pay a CRS related to historical stranded costs and ongoing uneconomic costs incurred by bundled customer load. The CRS comprises four components:

- DWR Bond Charge: charge for debt service associated with the Department’s 2002 issuance of revenue bonds.
- DWR Power Charge: charge related to uneconomic DWR contract costs incurred by bundled load on an ongoing basis.
- Historical Procurement Charge (“HPC”): charge to recover SCE’s historical under-collection of costs in 2000 and to recover PG&E’s regulatory asset established PG&E’s bankruptcy settlement with the Commission.

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<sup>6</sup> Decision 04-02-042, Finding of Fact 4.

- Competition Transition Charge (“CTC”): charge related to uneconomic URG, QF, and purchased power agreement costs incurred by bundled customers on an ongoing basis.

Payments by direct access and other departing load of the DWR Bond Charge and the DWR Power Charge flow to the Department through Commission established rates on total usage. These revenues reduce one-for-one the bundled customer responsibility for the DWR Bond Charge and DWR Power Charge. DWR Power Charge collections from direct access, in particular, are limited by a maximum collections rate, or cap, however, of \$.027/kWh, established by the Commission in Decision 03-07-030. Differences in the collection and accrual rate for the DWR Power Charge CRS are carried over for collection in future periods when the current period collections rate is less than the current period accrual rate.

The CRS does not affect Department power costs. The CRS is a revenue offset for a portion of costs associated with the bundled customer portfolio. With the exception of minor differences in the timing of revenue receipt between bundled customers and non-exempt direct access and other departing load customers, the revenue requirement in total is unaffected by the amount of the CRS.

DWR in consultation with the CPUC and the IOUs will quantify the expected revenues from direct access and other departing load customers which the Department expects to receive in 2004 after the CPUC allocation of this revenue requirement.

#### **CONTRACT DISPATCH AND COST MODELING**

Subsequent to the September 18, 2003 Determination, various changes were made in the modeling of certain Department power contracts to reflect more current contract-related information. Other revised assumptions affecting the Department’s total power costs, including increased fuel prices, are discussed below. Relevant contract changes are outlined in Table E-4:

**TABLE E-4**  
**LONG-TERM CONTRACT LISTING**

| <b>Contract</b>                                           | <b>Change</b>                                                                                                                                     |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| CalPeak Power—Panoche LLC                                 | Changed to 51.5 MW from 48 MW, to reflect tested capacity                                                                                         |
| CalPeak Power—VacaDixon LLC                               | Changed to 50.8 MW from 48 MW, to reflect tested capacity                                                                                         |
| CalPeak Power—El Cajon LLC                                | Changed to 50.8 MW from 48 MW, to reflect tested capacity                                                                                         |
| CalPeak Power—Border LLC                                  | Changed to 52 MW from 48 MW, to reflect tested capacity                                                                                           |
| CalPeak Power—Enterprise LLC                              | Changed to 51.3 MW from 48 MW, to reflect tested capacity                                                                                         |
| Calpine Energy Services, L.P.<br>(Contract 3)             | Changed the timing of capacity payments from annual, in-advance, lump-sum to monthly payments in arrears                                          |
| Calpine Energy Services, L.P.<br>(North San Jose Project) | Changed to 184 MW from a 180-225 MW range, to reflect tested capacity; assumed no increase to 225 MW during term of contract                      |
| GWF Energy LLC (Phases 1 and 2)                           | Changed to 191.5 MW from 176 MW to reflect tested capacity of these phases (94.8 MW and 96.7 MW)                                                  |
| GWF Energy LLC (Phase 3)                                  | Changed to 170.5 MW from 164 MW, to reflect tested capacity                                                                                       |
| Sunrise Power Company, LLC                                | Changed to 572 MW from 560 MW to reflect tested capacity; update the capacity price to \$173.43/kW-yr from \$170.62, per contract Section 8.02(a) |
| Williams Energy Marketing & Trading                       | Corrected the scheduling coordinator fee to \$16,667/month from \$16,617/month, with escalation beginning June 2004                               |

In addition, the costs assumed for the Amended and Restated Demand Reserves Purchase Agreement with the California Consumer Power Conservation and Financing Authority have been modified, based on historical costs incurred by the Department, to more accurately reflect expected future costs associated with contract operation. Annual costs associated with the Demand Reserve Purchase Agreement were originally forecasted to be \$29.6 million in the September 18, 2003 Determination; these forecasted costs have been reduced in this Proposed Supplemental Determination to \$15.7 million for 2004.

The aforementioned changes to modeled contract assumptions affect the Proposed Supplemental Determination by altering the amount of capacity available for dispatch by each IOU as well as the resultant contract costs incurred during IOU dispatch of Departmental power contracts. Due to the relatively small net increase in dispatchable contract capacity, overall contract dispatches are not expected to significantly change as a

result of these updated assumptions. All noted updates to specific contract capacity totals are based on current results of requisite annual performance testing.

Changes to specific fixed contract cost schedules did not have a material impact on forecasted contract cost totals during the 2004 Revenue Requirement Period. However, noted revisions, specifically the timing of capacity payments associated with Calpine Energy Services, L.P., Contract 3, are contributing components of noted deviations between actual and forecasted aggregate ending Power Charge Account balances as of December 31, 2003. Total power costs are also dependent upon updated assumptions related to the Department's fuel price forecast. These changes are discussed below.

#### **NATURAL GAS PRICE FORECASTS AND RELATED ASSUMPTIONS**

The natural gas forecast underpinning this Proposed Supplemental Determination includes gas prices that are considerably above those that were used in the September 18, 2003 Determination. While previous forecasts included price increases that were dampened after the first few years of the forecast, the increase associated with the February 2004 Gas Price Forecast is more permanent and projects the price increases over a longer term. In many respects, this appears to be more like a structural shift in gas prices than in other years. Table E-5 illustrates the updated price forecast.

**TABLE E-5  
NATURAL GAS AVERAGE PRICE FORECASTS  
(\$/MMBTU – NOMINAL)**

|                       | <b>Southern California Border</b> |               | <b>PG&amp;E Citygate</b> |               |
|-----------------------|-----------------------------------|---------------|--------------------------|---------------|
|                       | <b>2004</b>                       | <b>2005</b>   | <b>2004</b>              | <b>2005</b>   |
| January               | \$5.37                            | \$5.38        | \$5.53                   | \$5.55        |
| February              | \$4.58                            | \$4.59        | \$4.72                   | \$4.74        |
| March                 | \$4.42                            | \$4.43        | \$4.56                   | \$4.57        |
| April                 | \$4.67                            | \$4.68        | \$4.82                   | \$4.83        |
| May                   | \$4.94                            | \$4.96        | \$5.10                   | \$5.11        |
| June                  | \$5.00                            | \$5.01        | \$5.15                   | \$5.16        |
| July                  | \$4.88                            | \$4.90        | \$5.03                   | \$5.05        |
| August                | \$4.54                            | \$4.55        | \$4.68                   | \$4.69        |
| September             | \$4.67                            | \$4.69        | \$4.82                   | \$4.83        |
| October               | \$4.80                            | \$4.81        | \$4.95                   | \$4.96        |
| November              | \$5.14                            | \$5.16        | \$5.30                   | \$5.32        |
| December              | \$5.08                            | \$5.09        | \$5.24                   | \$5.25        |
| <b>Annual Average</b> | <b>\$4.84</b>                     | <b>\$4.85</b> | <b>\$4.99</b>            | <b>\$5.01</b> |

Using the same Long-Term Price Model that has been used in all prior revenue requirement filings, the forecast reflects new demand data supplied from the U.S. Energy Information Administration (EIA), lagged actual historical prices, and a storage variable adjusted for

weather conditions to project prices at Henry Hub, Louisiana. Henry Hub is the physical location used to trade gas futures contracts on the New York Mercantile Exchange (NYMEX) and is generally recognized as the most important market hub in North America. The variables have been chosen for their statistical significance when compared to historical prices. The main variables used by the model, are used in determining an econometric equation that has proved to be reliable in terms of predicting annual prices against actual reported prices. From the base annual price forecast, monthly prices are then derived using historical "spread factors" or the historical relationship of actual seasonal prices. Finally, the Henry Hub base forecast price is correlated to California as well as to western border and hub locations to forecast prices used in the revenue requirements process.

Reflective of the exceedingly high gas prices in the first quarter of 2003, which were partially the result of the near record cold experienced in the northeast U.S. and the upper mid-western U.S. regions of the country in winter 2002-2003, the model accounts for the historical shift upwards in gas prices that continued to linger over the course of 2003 compared to previous years. Year over year, prices at Henry Hub in 2003 increased over \$2.00 from the same prices for 2002. Short-term factors tended to support historically high 2003 gas prices. Storage levels that were drawn down in the spring of 2003 to below "normal" levels (the lowest levels since 2001) served to support strong prices into the summer air conditioning season. As the year progressed, high prices tended to encourage substitution away from natural gas and efficiency gains in new natural gas-fired generation allowed storage to attain near normal levels heading into the winter. Throughout the year, however, high residual fuel oil prices and surprising strength in the overall national economy offset significantly reduced natural gas demand. At the end of 2003, warmer-than-normal weather during November and December seemed to assure a repeat of the prior winter's price reductions, but this did not occur as strong December prices, regardless of market fundamentals, prevailed. All these factors tended to support higher prices for the 2004 gas forecast.

Increased gas prices impact the Department's revenue requirement in a number of ways, including increased contract costs for those contracts that have variable fuel costs (tolling arrangements), potential increases or decreases in dispatch and retail sales volumes for those contracts that have variable fuel costs, potential increases in dispatch and retail sales volumes for those contracts that do not have variable fuel costs (fixed price, dispatchable contracts), and potential increases in retail sales volumes for those contracts that do not have variable fuel costs (fixed price, must take contracts). Thus, the increased fuel cost component of the Department's power supply contract costs are a key factor for the increase in total power costs from \$4.698 billion (as estimated in the September 18, 2003 Determination) to \$4.878 billion in this Proposed Determination.

## **IOU PLANNED OUTAGE SCHEDULES**

New information regarding planned outages in 2004 at PG&E's Diablo Canyon nuclear generation facility was provided to the Department by PG&E on February 27, 2004. As a result of this new information, the Department has revised the planned outages assumed for

Diablo Canyon Units 1 and 2 (with a 1,087 MW capacity per unit) within the Department's production simulation analysis.

In the September 18, 2003 Determination, Diablo Canyon Unit 1 was projected to incur a planned maintenance outage modeled to begin in April 2004, for an expected outage period of 35 days. Based on the updated information provided by PG&E, Diablo Canyon Unit 1 is now projected to incur a planned maintenance outage modeled to begin in April 2004, for an expected outage period of 48 days.

In the September 18, 2003 Determination, Diablo Canyon Unit 2 was projected to incur a planned maintenance outage modeled to begin in October 2004, for an expected outage period of 35 days. Based on the updated information provided by PG&E, Diablo Canyon Unit 2 is now projected to incur a planned maintenance outage modeled to begin in November 2004, for an expected outage period of 42 days.

Changes in planned outages can impact the projected dispatch of units in the region and can also impact the amount of sales of DWR contract energy to retail customers.

#### **HYDROELECTRIC CONDITIONS IN CALIFORNIA AND THE PACIFIC NORTHWEST**

The outlook for 2004 hydroelectric conditions in California and the Pacific Northwest have changed since the September 18, 2003 Determination. In consideration of the potential impact, the Department has reviewed its hydroelectric assumptions, and has updated its forecast to reflect current expected hydroelectric conditions in both geographic areas.

In the September 18, 2003 Determination, hydroelectric facilities in California and the Pacific Northwest were expected to operate based on normal water years in 2004 and 2005.

Following an analysis of precipitation and snow-pack conditions as of February 1, 2004, the CEC prepared an in-State hydro outlook that indicated annual hydroelectric production levels at 91 percent of normal for 2004. This California forecast was predicated on normal precipitation conditions for the remainder of the year.

For the Pacific Northwest, the Department utilized the National Weather Service's Northwest River Forecast Center runoff forecast for The Dalles, February 2004 Final Forecast. This updated forecast is 93 percent of a normal year in 2004.

Based on these current hydro forecasts, the Department has updated its adopted forecast to 92 percent of normal, WECC-wide, for 2004. Both California and the Pacific Northwest are assumed to be at 100 percent of normal hydroelectric production in 2005.



## **F. Just and Reasonable Determination**

### **THE AUGUST 16, 2002 DETERMINATION**

The Department's August 16, 2002 Determination of Revenue Requirements provided extensive material leading to the determination by the Department that its revenue requirement for 2003 as determined therein was just and reasonable. That information is, to the extent applicable and not modified herein, incorporated in this 2004 Proposed Supplemental Determination by reference and will not be repeated herein.

### **THE JULY 1, 2003 SUPPLEMENTAL DETERMINATION**

Subsequent to August 16, 2002, new information became available to the Department. Such new information, either provided by the IOUs, as a result of experience from actual transactions, or emanating from a change in certain assumptions, led to the 2003 Supplemental Determination. That information is, to the extent applicable and not modified herein, incorporated in this 2004 Proposed Supplemental Determination by reference and will not be repeated herein.

### **THE SEPTEMBER 18, 2003 DETERMINATION**

The September 18, 2003 Determination provided extensive material leading to the determination by the Department that its revenue requirement for 2004 as determined therein was just and reasonable. That information is, to the extent applicable and not modified herein, incorporated in this 2004 Proposed Supplemental Determination by reference and will not be repeated herein.

### **THE PROPOSED 2004 SUPPLEMENTAL REVENUE REQUIREMENT DETERMINATION**

In February 2004, with the availability of a substantial amount of the actual data for 2003, the Department identified a year-end 2003 balance in the Power Charge Operating Account that was \$275 million greater than the year-end 2003 balance projected in the September 18, 2003 Determination. During CPUC hearings on the allocation of the 2004 Revenue Requirement, the Department provided and discussed Reference Item C identifying the year-end 2003 Power Charge Account Balances and also notified the CPUC that it is currently examining the ending Operating Account balance along with updated gas prices, expected gas hedging activity, current hydroelectric generation conditions, the anticipated payment from PG&E of interest on under-remittances associated with energy delivered by PG&E to the Western Area Power Administration and other variables including, but not limited to, payments to the Department that may occur in connection with PG&E's emergence from bankruptcy.

The Department's examination of the issues identified above has allowed the Department to determine whether to institute a public process to examine modifications to the Department's 2004 Revenue Requirements and the timeframes for any such process. A description of this analysis is found in Section G of this proposed determination.

In its review the Department submitted two sets of data requests to each of the three IOUs. Timely responses were received from PG&E and SDG&E and have been considered in preparation of this Proposed Determination.<sup>7</sup>

As a result of the review process, the Department has proposed this Supplemental 2004 Revenue Requirement.

**THE DEPARTMENT WILL MAKE A JUST AND REASONABLE DETERMINATION AFTER COMPLETION OF ITS ADMINISTRATIVE PROCESS**

The Department submits this Proposed Supplemental Determination of Revenue Requirements for public review with the intent and belief that the supplemental information contained herein will result in a finding by the Department that the Proposed Supplemental Determination is just and reasonable. Under the regulations promulgated by the Department to allow for adequate public review and comment, a final determination by the Department that the Proposed Supplemental Determination is just and reasonable will only be made after the Department's administrative process is complete. This process may result in the submittal of a Supplemental Determination to the Commission that differs from this Proposed Supplemental Determination.

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<sup>7</sup> See Section G for reference to the actual questions posed in the data request. IOU responses involve confidential information and will not be displayed.

## **G. Annotated Reference Index of Materials Upon Which the Department Relied to Make Determinations**

| <b>Volume</b> | <b>Record Number</b> | <b>Record Title</b>                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DWR04psRR     | 1                    | State of California Department of Water Resources Determination of Revenue Requirements for the Period January 1, 2004 through December 31, 2004, including by reference materials contained within Section I - Annotated Reference Index of Materials Upon Which the Department Relied to Make Determinations, Dated September 18, 2003                                                                          |
| DWR04psRR     | 2                    | Pacific Gas and Electric Company's First Set of Data Request of the California Department of Water Resources 2004 Revenue Requirement Determination A.00-11-056, Dated September 29, 2003                                                                                                                                                                                                                         |
| DWR04psRR     | 3                    | Southern California Edison Company's First Set of Data Request of the California Department of Water Resources 2004 Revenue Requirement Determination A.00-11-038, Dated October 1, 2003                                                                                                                                                                                                                          |
| DWR04psRR     | 4                    | Southern California Edison Company's Second Set of Data Requests of the California Department of Water Resources 2004 Revenue Requirement Determination A.00-11-038, Dated October 17, 2003                                                                                                                                                                                                                       |
| DWR04psRR     | 5                    | Southern California Edison Company's Third Set of Data Requests of the California Department of Water Resources 2004 Revenue Requirement Determination A.00-11-038, Dated November 24, 2003                                                                                                                                                                                                                       |
| DWR04psRR     | 6                    | Southern California Edison Company's Fourth Set of Data Requests of the California Department of Water Resources 2004 Revenue Requirement Determination A.00-11-038, Dated January 29, 2004                                                                                                                                                                                                                       |
| DWR04psRR     | 7                    | State of California Department of Water Resources Responses to Data Requests from Interested Parties in Application 00-11-038 et al. before the California Public Utilities Commission (2004 Determination of Revenue Requirement) [Includes responses to Pacific Gas & Electric Companies First Set of Data Requests and Southern California Edison Company's First Set of Data Requests], Dated October 7, 2003 |
| DWR04psRR     | 8                    | State of California Department of Water Resources Responses to Data Requests from Interested Parties in Application 00-11-038 et al. before the California Public Utilities Commission (2004 Determination of Revenue Requirement) [Includes responses to Southern California Edison Company's Second Set of Data Requests], Dated October 21, 2003                                                               |
| DWR04psRR     | 9                    | State of California Department of Water Resources Responses to Data Requests from Interested Parties in Application 00-11-038 et al. before the California Public Utilities Commission (2004 Determination of Revenue Requirement) [Includes responses to Southern California Edison Company's Third Set of Data Requests], Dated December 8, 2003                                                                |
| DWR04psRR     | 10                   | State of California Department of Water Resources Responses to Data Requests from Interested Parties in Application 00-11-038 et al. before the California Public Utilities Commission (2004 Determination of Revenue Requirement) [Includes responses to Southern California Edison Company's                                                                                                                    |

Fourth Set of Data Requests], Dated February 10, 2004

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|-----------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DWR04psRR | 11 | California Department of Water Resources First Data Request to Pacific Gas & Electric Regarding 2004 Revised Sales Forecasts and 2004 Hydrological Conditions, Dated February 18, 2004     |
| DWR04psRR | 12 | California Department of Water Resources First Data Request to Southern California Edison Regarding 2004 Revised Sales Forecasts and 2004 Hydrological Conditions, Dated February 18, 2004 |
| DWR04psRR | 13 | California Department of Water Resources First Data Request to San Diego Gas & Electric Regarding Revised Sales Forecasts, Dated February 18, 2004                                         |
| DWR04psRR | 14 | California Department of Water Resources Second Data Request to Pacific Gas & Electric Company Regarding Nuclear Operations and Other Generation, Dated February 24, 2004                  |
| DWR04psRR | 15 | California Department of Water Resources Second Data Request to Southern California Edison Regarding Nuclear Operations, Dated February 24, 2004                                           |
| DWR04psRR | 16 | California Department of Water Resources Second Data Request to San Diego Gas & Electric Regarding Nuclear Operations February 24, 2004                                                    |
| DWR04psRR | 17 | CONFIDENTIAL - Pacific Gas and Electric Company's Response to California Department of Water Resources First Data Request, Dated February 25, 2004 – NOT FOR PUBLIC RELEASE                |
| DWR04psRR | 18 | CONFIDENTIAL - Pacific Gas and Electric Company's Partial Response to California Department of Water Resources Second Data Request, Dated February 27, 2004 – NOT FOR PUBLIC RELEASE       |
| DWR04psRR | 19 | CONFIDENTIAL - Pacific Gas & Electric Company's Response to California Department of Water Resources Third Data Request, March 1, 2004 – NOT FOR PUBLIC RELEASE                            |
| DWR04psRR | 20 | CONFIDENTIAL - San Diego Gas & Electric Response to California Department of Water Resources First Data Request, Dated March 1, 2004 - NOT FOR PUBLIC RELEASE                              |
| DWR04psRR | 21 | CONFIDENTIAL - San Diego Gas & Electric Response to California Department of Water Resources Second Data Request, Dated March 1, 2004 – NOT FOR PUBLIC RELEASE                             |
| DWR04psRR | 22 | CONFIDENTIAL - Southern California Edison Responses to California Department of Water Resources First Data Request, Dated March 5, 2004 – NOT FOR PUBLIC RELEASE                           |
| DWR04psRR | 23 | Pacific Gas & Electric Company's Request for Reconsideration of September 18, 2003 DWR Notice of Determination of Revenue Requirement, Dated September 29, 2003                            |
| DWR04psRR | 24 | Prehearing Conference Statement of San Diego Gas and Electric Company, Dated September 30, 2004                                                                                            |

- DWR04psRR 25 Motion to Bifurcate of San Diego Gas and Electric Company and Motion of San Diego Gas and Electric Company for an Order Shortening Time to Respond to the Motion to Bifurcate, Dated September 30, 2004
- DWR04psRR 26 Reply Testimony of the Office of Ratepayer Advocates Relating to the True-Up of the DWR 2001-2002 Revenue Requirement Allocation, A.00-11-038, A.00-11-056, and A.00-11-028, including Qualifications and Prepared Testimony of Steve Ross, Dated October 22, 2003
- DWR04psRR 27 Southern California Edison Rebuttal Testimony Regarding the Implementation of DWR's 2004 Revenue Requirement and True-Up of DWR's 2001-2002 Revenue Requirement A.00-11-038, Exhibit No: SCE-20, Witnesses: C Cushnie, A. Jazayeri, Rosemead, California, Dated October 22, 2003
- DWR04psRR 28 State of California Department of Water Resources Reply Testimony of James E. Olson and Frank J. Perdue in A. 00-11-038 et al. Before the California Public Utilities Commission 2004 Determination of Revenue Requirements Allocation True up for 2001-2002 Revenue Requirements Period, including Exhibit 1 Power Purchase Summary 2001 through 2002, and Exhibit 2 Power Purchase Summary 2001 through 2002 (HAFs Method), Dated October 22, 2003
- DWR04psRR 29 Pacific Gas & Electric Company 2004 Revenue Requirement Reply Testimony, A.00-11-056, Witness Nina B. Bubnova, Dated October 22, 2003  
Testimony includes exhibits: Pacific Gas & Electric Company 2001-2002 DWR Power Charge Revenue Requirements True-Up Reply Testimony, Pacific Gas & Electric Company Chapter 2 True-Up Calculation, Revised Table 2-1 PG&E's Recommended Pro Rata True up Calculation with SCE's Wholesale Adjustment, Revised Table 2-2, Compliance Case True-up Calculation with SCEs Wholesale Adjustment, Pacific Gas & Electric Company Chapter 3 WAPA True-Up Amount, Appendix A, Statement of Qualifications,
- DWR04psRR 30 Rebuttal Testimony of Robert W. Hansen, and Rebuttal Testimony of Michael G. Strong, A.00-11-038, including Table 1 SDG&E Alternate Case True-up Calculation, Dated October 22, 2003
- DWR04psRR 31 State of California Department of Water Resources Response to Requests for Reconsideration of July 1, 2003 Supplemental Determination of Revenue Requirements, California Code of Regulation Title 23, Section 516 (b), Dated December 4, 2003
- DWR04psRR 32 State of California Department of Water Resources Response to Requests for Reconsideration of September 18, 2003 Supplemental Determination of Revenue Requirements, California Code of Regulation Title 23, Section 516 (b), Dated December 4, 2003
- DWR04psRR 33 Reply Comments of the California Energy Resources Scheduling Division of the California Department of Water Resources, Before the Federal Energy Regulatory Commission, Dated November 19, 2003

- DWR04psRR 34 Request for Clarification or, Alternatively, Rehearing of the California Energy Resources Scheduling Division of the California Department of Water Resources, Before the Federal Energy Regulatory Commission, Dated November 26, 2003
- DWR04psRR 35 CPUC Decision 04-01-028, Order Implementing an Interim Allocation of the 2004 Revenue Requirement Determination of the California Department of Water Resources and Truing Up The 2001-2002 Revenue Requirement Determination of the California Department of Water Resources, Dated January 8, 2004  
This decision is applicable to this Proposed Supplemental Determination, pending a final decision regarding revenue requirement allocation by the CPUC. Adopts Energy Division allocation in Exhibit 04-6A with two adjustments. DA-CRS Revenues to be updated by Utilities' Advice Letters, after agreement with DWR. Each Utility will also adjust its 2004 allocated revenue requirement and remittance rate to reflect the results of the True-up. PG&E authorized to set up a Power Charge Balancing Account. Adopted DWR proposed bond charge rate of \$0.00493. Future FERC ordered refunds for 2001-2002 will be allocated on a zonal basis. The Order also adopts the four adjustments proposed by SCE relating to net short calculations and remittances.
- DWR04psRR 36 CONFIDENTIAL - PROSYM Output Run 44, Sensitivity Case 1 and 2 - Proprietary Model and Confidential Data contained - Protected under relevant Non Disclosure Agreements - NOT FOR PUBLIC RELEASE
- DWR04psRR 37 CONFIDENTIAL - Consultant's Financial Model version CFMG3V32 – Proprietary Model and Confidential Data contained - Protected under relevant Non Disclosure Agreements - NOT FOR PUBLIC RELEASE.
- DWR04psRR 38 DWR Electric Power Fund Financial Statements, December 31, 2003  
Posted 2/13/04 to the CERS Website.
- DWR04psRR 39 DWR Electric Power Fund Financial Statements, September 30, 2003  
Posted 11/21/03 on the CERS website.
- DWR04psRR 40 State of California Department of Water Resources "Reference Item 04-C" in Application 00-11-038 et al before the California Public Utilities Commission 2004 Determination of Revenue Requirement (Permanent Allocation Phase), Dated February 4, 2004  
  
In hearings, ALJ Allen asked the Department to update the cash balance in the operating account. This responds by stating the cash balance in the operating account is approximately \$278 million higher at the end of January 2004, than in the September 2003 submittal of Table A-1. The new estimate is based on additional actual data which was unavailable in September 2003. Consequently, the additional data was not included in the record of DWR's administrative proceeding supporting the 2004 Determination of Revenue Requirements, thus was not examined in a public process.

- DWR04psRR 41 CONFIDENTIAL - Customer Load Forecast Data for Pacific Gas & Electric Company, Dated April 2003 – NOT FOR PUBLIC RELEASE
- DWR04psRR 42 CONFIDENTIAL – SCE Long-Term Resource Plan Load Forecast Workpapers April 15, 2003 – NOT FOR PUBLIC RELEASE
- DWR04psRR 43 CONFIDENTIAL - Customer Load Forecast Data for San Diego Gas & Electric Company, Dated May 2003 – NOT FOR PUBLIC RELEASE
- DWR04psRR 44 California Energy Commission Website publication: “California’s 2003 Electricity Supply and Demand Balance and Five-Year Outlook,” Dated May 2003  
  
CEC Report includes California Statewide table of the 2003 peak summer months, California Independent System Operator area table of the 2003 peak summer months, California Statewide graph of the 2003 peak summer months with normal weather, California Statewide graph of the 2003 peak summer months with hot weather, 2003-2008 Annual Summer Peak table with projected operating reserves, and 2003-2008 Annual Summer Peak graph.
- DWR04psRR 45 Pacific Gas and Electric Company Advice Letter 2464-E, submitting PG&E’s modified 2004 short-term plan conforming to Decision 03-12-062 Interim Opinion issued on December 18, 2003, Dated January 20, 2004 (redacted version)
- DWR04psRR 46 Southern California Edison’s 2003 Energy Resource Recovery Account Application filed with the California Public Utilities Commission on October 3, 2003 (redacted version)
- DWR04psRR 47 Southern California Edison’s Motion for a Authority to File and Maintain Confidential, Commercially Sensitive, Propriety Information Under Seal in relation to its 2003 Energy Resource Recovery Account Application, Dated October 3, 2003  
  
This motion requests that the ALJ maintain Southern California Edison’s confidential documents (SCE-1, SCE-2, and SCE-3) under seal.
- DWR04psRR 48 Southern California Edison’s Motion for a Protective Order in relation to its 2003 Energy Resource Recovery Account Application, Dated October 3, 2003  
  
This motion requests that the ALJ issue an order to set forth conditions upon which parties may obtain access to particular data (SCE-1, SCE-2, and SCE-3) used by Southern California Edison in support of its testimony filed in this application.
- DWR04psRR 49 San Diego Gas & Electric Company’s Advice Letter 1557-E, Revisions to Certain Portions of SDG&E’s Short-Term Procurement Plan in Compliance with D.03-12-062, Dated January 20, 2004 (redacted version)
- DWR04psRR 50 CPUC Decision 04-02-024, Opinion Regarding Petition to Modify Decision 03-04-057, Dated February 19, 2004  
  
This Decision permits Direct Access (DA) customers to relocate load to a new location as long as there is no net increase in the DA customer's load within a utility service territory, eliminating the requirement for "one-for-one" or

"account-by-account" basis. Also, relieves Energy Service Providers of the requirement to sign an affidavit attesting to the compliance of DA customers with DA load suspension rules.

- DWR04psRR 51 CPUC Decision 02-03-055, Opinion Rejecting an Earlier Date than September 20, 2001, for the Suspension of Direct Access, and Implementing the Suspension, as Adopted in D.01-09-060, as Modified by D.01-10-036, Dated March 21, 2002
- This decision follows up on the issue of the effective date of the suspension of direct access, which had been pending from previous decisions and rulemakings, keeping the suspension date of September 20, 2001. This order, which applies to the IOUs, prohibits any new arrangements or contracts for direct access service and imposes conditions on unsuspended direct access contracts.
- DWR04psRR 52 CPUC Decision 03-05-034, Opinion Adopting Rules for Switching Exemption, Dated May 8, 2003
- DWR04psRR 53 CPUC Decision 03-07-030, Opinion, Dated July 10, 2003
- This decision determines the appropriate level of Direct Access cost responsibility surcharge cap effective for the period subsequent to July 1, 2003.
- DWR04psRR 54 Master Settlement Agreement between CDWR and El Paso Energy, including Appendix 1.69 (FERC Settlement Agreement), Appendix 1.89 (Security Document Provisions), Appendix 3.3 (Class Opt Out Formula), Appendix 3.4 (pro forma Federal Court Stipulated Judgment), Appendix 7.5(c) (El Paso Subsidiaries and Affiliates), Appendix 7.6 (Edison Subsidiaries and Affiliates), and Appendix 7.7 (PG&E and PG&E Corporation Subsidiaries and Affiliates), Executed June 24, 2003
- DWR04psRR 55 El Paso Settlement Allocation Agreement, Executed June 25, 2003
- This allocation agreement entered into by Settling Parties determines how funds will be distributed among the various parties upon settlement closing.
- DWR04psRR 56 CPUC Decision 03-10-087, Opinion Regarding Treatment of Consideration Received Pursuant to El Paso Settlement, Dated October 30, 2003
- In settlement of various litigation, El Paso has agreed to provide an estimated \$1.5 billion (nominal value), composed of 1) \$900 million in cash at \$45 million per year for 20 years (15 years if El Paso achieves an investment grade credit rating) with a prepayment option for El Paso; 2) \$125 million reduction in El Paso's long-term contracts with CDWR; 3) \$352 million in up front cash; 4). Proceeds from the sale of more than 26 million shares of El Paso stock (estimated value \$227 at the time of the MSA). About \$425 million will be payable to CDWR, which CDWR has committed to use to reduce amounts which contribute to the revenue requirement paid by ratepayers under CPUC jurisdiction. About \$600 million will be allocated to electric and gas utilities under CPUC jurisdiction. Additional amounts are allocated to out-of-state, muni and non-core gas customers. Decision notes issues are before FERC, San Diego Superior Court and U.S. District Court. This decision also addresses issues of allocation to DA customers.



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| DWR04psRR | 57 | CPUC Order Instituting Rulemaking R.03-07-008 Adopting Rules to Account for the Consideration Received by Regulated California Electric and Natural Gas Utilities Under a Settlement with El Paso Natural Gas Company, et al, Dated July 10, 2003 |
| DWR04psRR | 58 | Department of Water Resources Letter to Calpine Energy Services, L.P. (contract capacity and COD acceptance), Dated April 25, 2003                                                                                                                |
| DWR04psRR | 59 | Letter Amendment between Department of Water Resources and Calpine Energy Services, L.P. (amended capacity payment schedule), Dated July 21, 2003                                                                                                 |
| DWR04psRR | 60 | Department of Water Resources Letter to GWF Energy, LLC (contract capacity acceptance), Dated August 8, 2003                                                                                                                                      |
| DWR04psRR | 61 | Department of Water Resources Letter to CalPeak Power, LLC (conditional capacity test acceptance), Dated September 19, 2003                                                                                                                       |
| DWR04psRR | 62 | Department of Water Resources Letter to Sunrise Power Company, LLC (contract capacity and heat rate acceptance), Dated September 8, 2003                                                                                                          |
| DWR04psRR | 63 | Report of Coordination – J. Van Horne with C. Hurlock (CERS) regarding Assumptions for 2004 for Demand Reserves Contract, Dated March 3, 2004                                                                                                     |
| DWR04psRR | 64 | Report of Coordination – J. Van Horne with T. McGivney (CERS) and Follow-up confirming call with Joe Judge (EPG) regarding Assumptions for 2004 for Demand Reserves Contract, Dated March 3, 2004                                                 |
| DWR04psRR | 65 | Amended and Restated Demand Reserves Purchase Agreement between CDWR and the California Consumer Power Conservation and Financing Authority, Dated April 29, 2003                                                                                 |
| DWR04psRR | 66 | DWR 2004 Gas Price Forecast, Revenue Requirements Internal Meeting, Dated February 17, 2004                                                                                                                                                       |
| DWR04psRR | 67 | DWR Natural Gas Forecast Update 2004 – Overview                                                                                                                                                                                                   |
| DWR04psRR | 68 | CONFIDENTIAL - Table: Forecast Comparison January 2003, March 2003 Update – NOT FOR PUBLIC RELEASE                                                                                                                                                |
| DWR04psRR | 69 | CONFIDENTIAL - Spreadsheet: 2004 Model Base Case HH - NOT FOR PUBLIC RELEASE                                                                                                                                                                      |
| DWR04psRR | 70 | CONFIDENTIAL - Spreadsheet: 2004 Gas Price Model – PS 2-12-04 – NOT FOR PUBLIC RELEASE                                                                                                                                                            |
| DWR04psRR | 71 | CONFIDENTIAL - Spreadsheet: DWR 2004 Base Case Forecast – Comparisons 021204r – NOT FOR PUBLIC RELEASE                                                                                                                                            |

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| DWR04psRR | 72 | CONFIDENTIAL - NCI Draft Only Confidential - DWR NG Physical and Financial Hedge Update Meeting – 2004/2005 Revenue Requirements, Dated February 2, 2004 - NOT FOR PUBLIC RELEASE                                                                                                                                                |
| DWR04psRR | 73 | CONFIDENTIAL – DWR 2004 Gas Price Forecast Final, Dated March 3, 2004 – NOT FOR PUBLIC RELEASE                                                                                                                                                                                                                                   |
| DWR04psRR | 74 | CONFIDENTIAL – Considerations for DWR, CPUC OIR R.04-01-025, Reliable Long-Term Gas Supply for California – NOT FOR PUBLIC RELEASE                                                                                                                                                                                               |
| DWR04psRR | 75 | National Energy Information Center, Annual Energy Outlook 2004 with Projections to 2025                                                                                                                                                                                                                                          |
| DWR04psRR | 76 | Energy Information Administration (DOE) Short-Term Energy Outlook, January 2004                                                                                                                                                                                                                                                  |
| DWR04psRR | 77 | Minutes of the Diablo Canyon Independent Safety Committee October 2003 Public Meeting, Dated February 23, 2004                                                                                                                                                                                                                   |
| DWR04psRR | 78 | Record of Coordination – Paul Luther with William Eccles, (NEI) regarding PG&E Outage Information (Capacity Factor check) W. Eccles follow up to P. Luther with an e-mail transmittal including the spreadsheet data, Dated February 25, 2004                                                                                    |
| DWR04psRR | 79 | California Hydroelectric Energy Snapshot, Electricity Analysis Office, California Energy Commission, Dated February 20, 2004                                                                                                                                                                                                     |
| DWR04psRR | 80 | Record of Coordination – Nick Nichols with Jim Woodward (CEC) regarding CEC in-State hydro outlook, Dated February 17, 2004.                                                                                                                                                                                                     |
| DWR04psRR | 81 | Department of Water Resources Memorandum to the California Public Utilities Commission regarding Investor-Owned Utility Advice Letters – Power Charge Remittance Rates and Implementation of Decision 03-09-018, October 2, 2003                                                                                                 |
| DWR04psRR | 82 | CPUC Decision 03-09-061, Order Granting Petition to Modify, Dated September 18, 2003<br><br>This order grants San Diego Gas & Electric Company’s petition to modify D.03-07-030 relating to the implementation of the core/non-core split. It allows SDG&E, like PG&E, to deviate from the 20kW allocation separation criterion. |
| DWR04psRR | 83 | Peter Garriss letter to ALJ Halligan on the subject of "Application 02-11-017 - PG&E General Rate Case Motion for Approval of Settlement Agreement," Dated October 1, 2003<br><br>DWR requests the CPUC reject PG&E recovery of alleged implementation costs associated with the 20/20 program.                                  |
| DWR04psRR | 84 | CPUC Decision 03-10-016, Opinion, Dated October 2, 2003<br><br>This decision orders that the Williams Gas Contract shall be allocated to the gas supply portfolios of SCE and SDG&E, consistent with the DWR determination in September 15, 2003 memorandum. The Kern River                                                      |

scheduling rights shall be allocated to the utilities so that each utility is allowed to schedule 50% of its allocated Williams Gas Contract on Kern River. The utilities shall incorporate the Williams Gas Contracts volumes allocated to them according to this decision into future Gas Supply Plans beginning in October 2003 through March 2004.

- DWR04psRR 85 CPUC Decision 03-10-022, Order Denying Rehearing of Decision 03-02-072, Dated October 2, 2003.
- This decision confirmed the allocation of four biomass contracts; three to PG&E and one to SCE.
- DWR04psRR 86 CPUC Decision 03-10-023, Order Denying Rehearing of Decision 03-09-017, Dated October 2, 2003
- This decision directs PG&E to pay WAPA amounts with interest, the interest to be a shareholder expense. PG&E asked for rehearing of the interest portion only.
- DWR04psRR 87 CPUC Decision 03-10-040, Opinion On Municipal Fee Remittance Methodology Relating to Electricity Sales By California Department of Water Resources, Dated October 16, 2003
- PG&E shall implement corrections to calculate and remit municipal surcharge fees to each municipality on a basis consistent with the other IOUs.
- DWR04psRR 88 ALJ Ruling Granting Motion to Bifurcate, Dated October 17, 2003
- ALJ Allen granted SDG&E petition to bifurcate the 2004 revenue requirement allocation proceeding. An interim allocation of 2004 will be made based on the 2003 methodology. A subsequent proceeding will determine a final allocation process. This ruling sets a tentative schedule for the process.
- DWR04psRR 89 Viju Patel letter to Paul Clanon on Draft Resolution E-3852, Dated November 14, 2003
- Supports draft resolution to deny PG&E Advice Letter 2354-E but recommends two modifications.
- DWR04psRR 90 Viju Patel letter to Paul Clanon regarding Draft Resolution E-3852, Dated November 19, 2003
- DWR04psRR 99 CPUC Decision 03-12-015, Opinion Regarding Assembly Bill 117's Expanded Registration of Electric Service Providers and Reentry Fee, Dated December 4, 2003
- Unless specifically excluded, all entities that offer electric service to customers within the service territory of an electrical corporation in Ca. shall be required to register with the Commission within 120 days, if not already registered.
- DWR04psRR 100 Peter Garris letter to ALJ Wong regarding the "Draft Decision on Calculation of Interest Associated with Under-remittances from PG&E," Dated January 5, 2004
- The letter discusses WAPA interest issues raised by SCE and SDG&E, the Department considers a rate allocation issue and does not express an opinion on which calculation should be used.

- DWR04psRR 102 Andrew Ulmer transmittal to ALJ Allen providing a copy of the August 8, 2002 Ron Nichols Declaration, Dated January 21, 2004
- This was requested by various parties in hearings in the 2004 Permanent Allocation Phase. Also attached is supporting documentation pertaining to the delivery of a CD with the requested information provided to the IOUs.
- DWR04psRR 103 CPUC Decision 04-01-049, Opinion Regarding Western Area Power Administration Interest, Dated January 22, 2004
- Commission Ordered PG&E to pay "WAPA" related interest in the amount of \$38 million, to DWR within 20 days from today's date.
- DWR04psRR 104 CPUC Decision 04-01-050, Interim Opinion on Rulemaking 01-10-024, Dated January 26, 2004
- This decision establishes long-term IOU procurement policy. Among the matters addressed by Decision 04-01-050 are (1) the adoption of a resource adequacy workshop process to implement reserve targets by early 2008; (2) a further moratorium on affiliate transactions with limited exceptions and a requirement that SDG&E demonstrate that its gas procurement activities are comprised solely of SDG&E management as well as a management audit of both SDG&E and PG&E's gas procurement transactions on behalf of DWR. Decision 04-01-050 requires the IOUs to resubmit their long term procurement plans in a new procurement rulemaking to be instituted in Q2 of 2004. The Decision maintains the IOUs semi-annual ERRRA filings for 2004 and 2005, which concern the reasonableness of DWR contract administration activities.
- DWR04psRR 105 Viju Patel letter to Paul Clanon regarding PG&E Advice Letter 2465E, Dated February 4, 2004
- PG&E proposed to make certain reductions to DWRs 2004 Revenue Requirements. This letter requests the Commission require PG&E to modify the Advice Letter.
- DWR04psRR 106 CPUC Decision 04-02-028, Order Modifying Decision D.04-01-028 and Denying Rehearing of the Decision, as Modified, Dated February 11, 2004
- SCE filed for rehearing of D.04-01-028 which allocated the 2004 Revenue Requirements on an interim basis and trued up the 2001-2002 period. The Commission, in this order denied SCE request for rehearing. This Decision modified the Find of Fact #7 and the Conclusion of Las #7, in wording only. The intent and result was not changed.
- DWR04psRR 107 Peter Garris letter to ALJ Allen regarding the "Permanent Allocation of DWR Revenue Requirements," Dated February 18, 2004
- This letter was submitted with the scheduled date for comments on the proceeding. DWR states it is willing to maintain utility-specific balancing accounts; argues the CPUC should reject proposed changes to SDG&E and PG&E's remittance methodologies; states the Department does not oppose the elimination of sharing revenues from surplus sales; and argues the CPUC should not modify DWR's 2004 Revenue Requirement to reflect interest payments for under-remittances associated with energy delivered to the WAPA.

- DWR04psRR 108 Peter Garris letter to ALJ Janet Econome regarding “Draft Decision Addressing Pacific Gas and Electric Company Rate Design Settlement and Advice Letter 2465E,” Dated February 19, 2004
- The Department concurs with the draft Decision expect for wording relating to the PG&E Power Charge Balance Account ("PCBA"). The Department provides alternative wording to clarify ownership of funds collected from bundled customers.
- DWR04psRR 109 Peter Garris letter to the Commission regarding "Application 04-06-040 - Implementation of Comprehensive Settlement Agreement, Dated February 23, 2004
- The Department expresses concerns over the CSA relation to Southern California Gas Company. SCE has pointed out the implementation of the proposed structure could impact the Department by \$40 million to \$58 million during the April 2004 - August 2006 timeframe.
- DWR04psRR 110 CPUC Decision 04-02-062, Opinion Approving a Rate Design Settlement Lowering Pacific Gas and Electric Company’s Rates by \$799 Million, Dated February 26, 2004
- This decision approves the Settlement Agreement with Respect to Allocation and Rate Design Issues Associated with the Decrease in 2004 Revenue Requirement Arising from Approval of the Modified Settlement Agreement in Commission Decision 03-12-035, filed on January 20, 2004; and orders Pacific Gas and Electric Company to amend Advice Letter 2465-E to conform with the requirements of this decision, effective March 1, 2004, subject to the Commission’s Energy Division determination of compliance. PG&E may also revise Advice Letter 2510-G/2460-E, subject to the Energy Division’s review, to support the ratemaking mechanisms necessitated by this decision.
- DWR04psRR 111 CPUC Decision 04-02-065, Order Denying Rehearing of Decision 04-01-049, Dated February 26, 2004
- The Decision denies PG&E's Application for Rehearing of Decision 04-01-049 which required PG&E to pay \$38 million to DWR for interest on under-remittances associated with power delivered to WAPA. Decision 04-02-065 rejects PG&E's argument that requiring shareholders to pay the actual costs caused by PG&E's delay in remittances constitutes a civil penalty and that any such penalty should be paid by PG&E ratepayers.
- DWR04psRR 112 2004 Supplemental Revenue Requirement Discussion Between DWR and CPUC Energy Division Dated Feb 27, 2003 (sic.)
- (Note: The presentation contains a typo regarding the document date of 2003, when the document was actually produced in 2004)
- DWR04psRR 113 CDWR Rate True-Up Assuming Approval of Advice 2417-E and 2466-E by Mid-March 2004
- DWR04psRR 114 PG&E Advice Letter 2417-E, Revision to the Power Charge Remittance Rate Filed in Advice 2328-E-C, Dated September 12, 2003

- DWR04psRR 115 PG&E Advice Letter 2419-E, Establish Customer Credit Holding Account and Revise DWR Remittance Rate in Compliance with Decision 03-09-018, Dated September 12, 2003
- DWR04psRR 116 U.S. Bankruptcy Court, Northern District of California San Francisco Division, Case No. 01-30923, Stipulation Resolving Claim of Department of Water Resources (Claim No. 12323 as Amended by Claim No. 12592), Order Thereon, Dated February 26, 2004